

CITY OF GLADBROOK

**Independent Auditors' Reports
Basic Financial Statements
Supplementary and Other Information
Schedule of Findings**

June 30, 2013

CITY OF GLADBROOK

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CITY OF GLADBROOK

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Keith Sash	Mayor	Jan 2016
Roger Luehring	Mayor Pro Tem	Jan 2014
Sam Goos	Council Member	Jan 2014
Betty Dahms	Council Member	Jan 2014
Dan DeWitt	Council Member	Jan 2016
Trudi Scott	Council Member	Jan 2016
Lori Bearden	Clerk/Treasurer	Indefinite
John Livingston	Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladbrook's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 21 through 23 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2013 on our consideration of the City of Gladbrook's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Gladbrook's internal control over financial reporting and compliance.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gladbrook provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 45%, or approximately \$710,000, from fiscal year 2012 to fiscal year 2013. Loan proceeds decreased approximately \$496,000 and capital grants, contributions and restricted interest decreased approximately \$220,000.
- Disbursements decreased 56%, or approximately \$910,000, in fiscal year 2013 from fiscal year 2012 in the governmental activities. Capital projects decreased approximately \$972,000 and public works increased approximately \$62,000.
- The City's total cash basis net position increased 15.6%, or approximately \$206,000 from June 30, 2012 to June 30, 2013. Of this amount, the net position of the governmental activities decreased approximately \$60,000 and the cash basis net position of the business type activities increased by approximately \$266,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, the City Center movie theater and Matchstick Marvels museum and the Gladbrook Fitness Center. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales and Service Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water and sewer funds, for the operation of the City's movie theater and Matchstick Marvels museum and for the operation of the Gladbrook Fitness Center. These funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$928,790 to \$868,988. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program Receipts:		
Charges for service	\$ 6,665	5,824
Operating grants, contributions and restricted interest	175,004	185,459
Capital grants, contributions and restricted interest	171,290	391,671
General Receipts:		
Property tax	279,652	277,858
Local option sales tax	68,205	50,074
Franchise tax	5,784	5,918
Unrestricted interest on investments	2,230	1,686
Loan proceeds	144,718	640,443
Other general receipts	3,639	7,965
Total receipts	857,187	1,566,898
Disbursements:		
Public safety	118,719	141,955
Public works	172,028	110,134
Culture and recreation	55,375	46,874
Community and economic development	3,037	3,847
General government	76,363	80,726
Debt service	93,970	74,113
Capital projects	203,497	1,175,596
Total disbursements	722,989	1,633,245
Change in cash basis net position before transfers	134,198	(66,347)
Transfers, net	(194,000)	82,083
Change in cash basis net position	(59,802)	15,736
Cash basis net position beginning of year	928,790	913,054
Cash basis net position end of year	\$ 868,988	928,790

The City's total receipts for governmental activities decreased by 45% or approximately \$710,000. The total cost of all programs and services decreased by approximately \$910,000, or 56%, with no new programs added.

The decrease in receipts was primarily the result of the completion of the water tower and water main replacement projects in fiscal year 2013. The City received \$284,733 from the State of Iowa through the Community Development Block grant program and \$640,443 in capital loan note proceeds in fiscal year 2012 for these projects. These amounts were reflected in the capital grants and contributions and loan proceeds.

The cost of all governmental activities this year was approximately \$723,000 compared to approximately \$1,633,000 last year. However, as shown on the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was approximately \$370,000 because some of the cost was paid by those directly benefited from the programs (\$6,665) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$346,294). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2013 from approximately \$583,000 to approximately \$353,000. The City paid for the remaining "public benefit" portion of governmental activities (\$370,000) with taxes (some of which could only be used for certain programs) and with other receipts, such as interest and loan proceeds.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2013	2012
Receipts:		
Program Receipts:		
Charges for service:		
Water	\$ 178,370	157,422
Sewer	136,389	127,840
Concessions and admissions	109,452	109,277
Memberships	36,719	34,464
General Receipts:		
Unrestricted interest on investments	423	496
Contributions	6,155	6,062
Land rent	2,000	2,000
Total receipts	<u>469,508</u>	<u>437,561</u>
Disbursements:		
Water	163,387	126,723
Sewer	89,894	85,252
City center	115,734	117,895
Fitness center	28,605	20,494
Total disbursements	<u>397,620</u>	<u>350,364</u>
Change in cash basis net position before transfers	71,888	87,197
Transfers, net	<u>194,000</u>	<u>(82,083)</u>
Change in cash basis net position	265,888	5,114
Cash basis net position beginning of year	<u>389,962</u>	<u>384,848</u>
Cash basis net position end of year	<u>\$ 655,850</u>	<u>389,962</u>

Total business type activities receipts for the fiscal year were approximately \$470,000 compared to approximately \$438,000 last year. Total disbursements were virtually unchanged from the previous year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Gladbrook completed the year, its governmental funds reported a combined fund balance of \$868,988, a decrease of \$59,802 from last year's total of \$928,790. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$52,547 from the prior year to \$780,023. The increase is due to decreasing disbursements related to public safety and public works.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$17,148 to \$52,612 during the fiscal year. The decrease was primarily due to an increase in the amount expended for snow and ice removal and street construction and maintenance.
- The Special Revenue, Local Option Sales and Service Tax Fund cash balance remained approximately the same from 2012. In 2013 the City transferred the local option sales tax and service revenue to the debt service fund to pay a portion of debt and to the general fund for property tax relief.
- The Debt Service Fund cash balance remained approximately the same from 2012. This fund is used to pay off general obligation bonds and notes. In 2013, the City transferred funds from the Local Option Sales Tax and Service Fund to pay a portion of the debt.
- The Capital Projects Fund was used to account for the construction of a new water tower and replacement of water mains in the City. These projects were completed in 2013.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$50,634 to \$255,029, primarily due to an increase in water revenue.
- The Sewer Fund cash balance increased by \$201,086 to \$305,372, primarily due to repayment of an inter fund operating loan from capital projects to help fund the new water tower and water main replacement projects.
- The City Center cash balance increased by \$3,873 to \$529 due primarily to a transfer in from the general fund of \$6,000.
- The Fitness Center cash balance increased by \$10,295 to \$94,920 due primarily to a decrease in salaries and an increase in fitness center memberships.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended their budget once. The amendment was approved on May 13, 2013 and resulted in an increase in operating disbursements of approximately \$239,000. The amendment was made to provide for additional disbursements in certain City departments, including costs associated with a curb and gutter project.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$1,316,661 in bonds and other long-term debt, compared to \$1,302,443 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2013	2012
General obligation notes	\$ 352,500	443,000
Revenue notes	964,161	859,443
Total	\$ 1,316,661	1,302,443

Debt increased as a result of issuing an additional \$144,718 of water revenue notes to finance the new water tower and water main replacement projects.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$352,500 is below its constitutional debt limit of \$1,992,396. Additional information about the City's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Gladbrook's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged for various City activities.

The City completed the construction of the new water tower and the replacement of water main project in 2013. The City had received a \$500,000 Community Development Block Grant and a State Revolving Loan in the amount of \$825,000 to help fund the approximately \$1.3 million project. A rate increase in water usage was implemented in 2011 to help service the debt. The City plans to begin construction on a proposed \$800,000 fire and ambulance building in the spring of 2014. The City also plans on replacing the Grand Street Bridge in 2014 at an estimated cost of \$250,000 with \$50,000 being contributed by the City and \$200,000 being funded through the federal bridge replacement program.

The City's property tax base increased slightly for fiscal year 2014 and property tax rates remained virtually unchanged.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori Bearden, City Clerk, at 319 2nd Street, Gladbrook, Iowa 50635.

CITY OF GLADBROOK
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

Functions/Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 118,719	110	66,578	12,672
Public works	172,028	315	90,499	4,733
Culture and recreation	55,375	4,480	8,950	-
Community and economic development	3,037	-	1,646	-
General government	76,363	1,760	7,331	-
Debt service	93,970	-	-	-
Capital projects	203,497	-	-	-
Total governmental activities	722,989	6,665	175,004	153,885
Business type activities:				
Water	163,387	178,370	151	-
Sewer	89,894	136,389	2,091	-
City center	115,734	109,452	4,155	-
Fitness center	28,605	36,719	2,181	-
Total business type activities	397,620	460,930	8,578	-
Total	\$ 1,120,609	467,595	183,582	171,290
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Franchise tax				
Unrestricted interest on investments				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
------------------------------------------------------------------------	--	--

Governmental Activities	Business Type Activities	Total
(39,359)	-	(39,359)
(76,481)	-	(76,481)
(41,945)	-	(41,945)
(1,391)	-	(1,391)
(67,272)	-	(67,272)
(93,970)	-	(93,970)
(49,612)	-	(49,612)
(370,030)	-	(370,030)

-	15,134	15,134
-	48,586	48,586
-	(2,127)	(2,127)
-	10,295	10,295
-	71,888	71,888
(370,030)	71,888	(298,142)

239,038	-	239,038
40,427	-	40,427
187	-	187
68,205	-	68,205
5,784	-	5,784
2,230	-	2,230
144,718	-	144,718
3,639	-	3,639
(194,000)	194,000	-
310,228	194,000	504,228
(59,802)	265,888	206,086
928,790	389,962	1,318,752
\$ 868,988	655,850	1,524,838

\$ 52,612	-	52,612
-	74,098	74,098
249,605	-	249,605
566,771	581,752	1,148,523
\$ 868,988	655,850	1,524,838

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

		Special Revenue		
	General	Road Use Tax	Local Option Sales Tax	Capital Projects
Receipts:				
Property tax	\$ 199,292	-	-	-
Tax increment financing	-	-	-	-
Other city tax	5,115	-	68,205	-
Intergovernmental	41,831	90,499	-	152,745
Licenses and permits	210	-	-	-
Charges for service	31,718	-	-	-
Use of money and property	3,418	-	-	-
Special assessments	-	4,733	-	-
Miscellaneous	34,294	315	-	1,140
Total receipts	315,878	95,547	68,205	153,885
Disbursements:				
Operating:				
Public safety	118,719	-	-	-
Public works	18,271	153,757	-	-
Culture and recreation	49,172	-	-	-
Community and economic and development	3,037	-	-	-
General government	76,363	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	203,497
Total disbursements	265,562	153,757	-	203,497
Excess (deficiency) of receipts over (under) disbursements	50,316	(58,210)	68,205	(49,612)
Other financing sources (uses):				
Loan proceeds	-	-	-	144,718
Operating transfers in	46,128	41,062	-	-
Operating transfers out	(43,897)	-	(68,205)	(188,000)
Total other financing sources (uses)	2,231	41,062	(68,205)	(43,282)
Net change in cash balances	52,547	(17,148)	-	(92,894)
Cash balances beginning of year	727,476	69,760	-	113,707
Cash balances end of year	\$ 780,023	52,612	-	20,813
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	52,612	-	-
Other purposes	-	-	-	20,813
Assigned for:				
Fire equipment	70,103	-	-	-
Ambulance	139,100	-	-	-
Museum	1,399	-	-	-
Recreational trust	2,669	-	-	-
Unassigned	566,752	-	-	-
Total cash basis fund balances	\$ 780,023	52,612	-	20,813

See notes to financial statements.

Debt Service	Nonmajor	Total
39,408	33,763	272,463
-	187	187
1,019	868	75,207
-	832	285,907
-	-	210
-	-	31,718
-	181	3,599
-	-	4,733
-	2,696	38,445
40,427	38,527	712,469
-	-	118,719
-	-	172,028
-	6,203	55,375
-	-	3,037
-	-	76,363
93,970	-	93,970
-	-	203,497
93,970	6,203	722,989
(53,543)	32,324	(10,520)
-	-	144,718
53,543	-	140,733
-	(34,631)	(334,733)
53,543	(34,631)	(49,282)
-	(2,307)	(59,802)
-	17,847	928,790
-	15,540	868,988
-	-	52,612
-	15,540	36,353
-	-	70,103
-	-	139,100
-	-	1,399
-	-	2,669
-	-	566,752
-	15,540	868,988

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

	Enterprise				
	Water	Sewer	City Center	Fitness Center	Total
Operating receipts:					
Charges for service	\$ 178,370	136,389	109,452	36,719	460,930
Total operating receipts	178,370	136,389	109,452	36,719	460,930
Operating disbursements:					
Business type activities	125,332	59,814	115,734	28,605	329,485
Total operating disbursements	125,332	59,814	115,734	28,605	329,485
Excess (deficiency) of operating receipts over (under) operating disbursements	53,038	76,575	(6,282)	8,114	131,445
Non-operating receipts (disbursements):					
Contributions	-	-	4,155	2,000	6,155
Interest on investments	151	91	-	181	423
Land rent	-	2,000	-	-	2,000
Debt service	(38,055)	(30,080)	-	-	(68,135)
Net non-operating receipts (disbursements)	(37,904)	(27,989)	4,155	2,181	(59,557)
Excess (deficiency) of receipts over (under) disbursements	15,134	48,586	(2,127)	10,295	71,888
Other financing sources (uses):					
Operating transfers in	38,000	152,500	6,000	-	196,500
Operating transfers out	(2,500)	-	-	-	(2,500)
Total other financing sources (uses)	35,500	152,500	6,000	-	194,000
Net change in cash balances	50,634	201,086	3,873	10,295	265,888
Cash balances beginning of year	204,395	104,286	(3,344)	84,625	389,962
Cash balances end of year	\$ 255,029	305,372	529	94,920	655,850
Cash Basis Fund Balances					
Restricted for debt service	\$ 43,708	30,390	-	-	74,098
Unrestricted	211,321	274,982	529	94,920	581,752
Total cash basis fund balances	\$ 255,029	305,372	529	94,920	655,850

CITY OF GLADBROOK

Notes to Financial Statements

June 30, 2013

Note 1 – Summary of Significant Accounting Policies

The City of Gladbrook is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Gladbrook has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Gladbrook has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Solid Waste Disposal Commission, Tama County Joint E911 Service Board, Region Six Planning Commission and Tama County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

Local Option Sales and Services Tax Fund is used to account for the collection and use of the local option sales and services tax.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, City Center Fund accounts for the operation and maintenance of the City's movie theater and Matchstick Marvels museum.

The Enterprise, Fitness Center Fund accounts for the operation and maintenance of the City's fitness center.

C. Measurement Focus and Basis of Accounting

The City of Gladbrook maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2013

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Governmental Cash Basis Fund Balances (continued):

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal law or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2 – Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Note 3 – Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$11,383, \$10,784 and 9,233, respectively, equal to the required contributions for each year.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2013

Note 4 – Notes Payable

Annual debt service requirements to maturity for general obligation notes, a sewer revenue capital loan note, a rural economic development loan and a state revolving fund loan are as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Capital Loan Note		Rural Economic Development Loan		State Revolving Fund Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 52,500	1,560	24,000	6,390	40,000	-	751,161	22,534	867,661	30,484
2015	-	-	25,000	5,670	40,000	-	-	-	65,000	5,670
2016	-	-	25,000	4,920	40,000	-	-	-	65,000	4,920
2017	-	-	26,000	4,170	40,000	-	-	-	66,000	4,170
2018	-	-	27,000	3,390	40,000	-	-	-	67,000	3,390
2019-2022	-	-	86,000	5,190	100,000	-	-	-	186,000	5,190
Total	\$ 52,500	1,560	213,000	29,730	300,000	-	751,161	22,534	1,316,661	53,824

The City has pledged future sewer and water customer receipts, net of specified operating disbursements, to repay \$213,000 of a sewer revenue note and \$751,161 of a state revolving loan fund note. Proceeds from the notes provided a new sanitary sewer system and a new water tower and water main lines. The notes are payable solely from customer net receipts and are payable through 2022.

Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2013 was \$3,819, primarily relating to the General Fund. This liability has been computed based on rates of pay in effect at June 30, 2013.

Note 6 – Risk Management

The City of Gladbrook is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Related Party Transactions

The City had business transactions between the City and City officials totaling \$27,209 during the year ended June 30, 2013.

CITY OF GLADBROOK
Notes to Financial Statements (Continued)
June 30, 2013

Note 8 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 53,543
General	Special Revenue:	
	Local Option Sales Tax	14,662
	Emergency Services	6,274
	Employee Benefits	<u>25,192</u>
		46,128
Enterprise:		
City Center	General	6,000
Enterprise:	Enterprise:	
Sewer	Water	2,500
Special Revenue:	Special Revenue:	
Road Use Tax	Employee Benefits	3,165
	General	<u>37,897</u>
		41,062
Capital Projects	Enterprise:	
	Sewer	150,000
Enterprise:		
Water	Capital Projects	<u>38,000</u>
Total		<u><u>\$ 337,233</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 9 – Commitment

In June 2013 the City Council pledged \$225,000 to be paid over three years for construction of a new fire and ambulance building.

Note 10 – Date of Management Evaluation

The City has evaluated subsequent events through August 16, 2013, the date which financial statements were available to be issued.

Other Information

CITY OF GLADBROOK
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 272,463	-
Tax increment financing	187	-
Other city tax	75,207	-
Intergovernmental	285,907	-
Licenses and permits	210	-
Charges for service	31,718	460,930
Use of money and property	3,599	2,423
Special assessments	4,733	-
Miscellaneous	38,445	6,155
Total receipts	<u>712,469</u>	<u>469,508</u>
Disbursements:		
Public safety	118,719	-
Public works	172,028	-
Health and social services	-	-
Culture and recreation	55,375	-
Community and economic development	3,037	-
General government	76,363	-
Debt service	93,970	-
Capital projects	203,497	-
Business type activities	-	397,620
Total disbursements	<u>722,989</u>	<u>397,620</u>
Excess (deficiency) of receipts over (under) disbursements	(10,520)	71,888
Other financing sources, net	<u>(49,282)</u>	<u>194,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(59,802)	265,888
Balances beginning of year	<u>928,790</u>	<u>389,962</u>
Balances end of year	<u>\$ 868,988</u>	<u>655,850</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
272,463	272,254	272,254	209
187	-	187	-
75,207	60,318	66,818	8,389
285,907	179,261	282,006	3,901
210	1,600	1,775	(1,565)
492,648	467,541	458,957	33,691
6,022	2,250	4,250	1,772
4,733	-	983	3,750
44,600	8,950	41,054	3,546
1,181,977	992,174	1,128,284	53,693
118,719	158,745	186,745	(68,026)
172,028	129,815	198,362	(26,334)
-	1,466	1,466	(1,466)
55,375	52,473	58,687	(3,312)
3,037	12,500	12,500	(9,463)
76,363	72,103	80,893	(4,530)
93,970	94,075	94,075	(105)
203,497	112,740	209,346	(5,849)
397,620	408,684	439,880	(42,260)
1,120,609	1,042,601	1,281,954	(161,345)
61,368	(50,427)	(153,670)	215,038
144,718	62,740	149,718	(5,000)
206,086	12,313	(3,952)	210,038
1,318,752	1,264,655	1,318,752	-
1,524,838	1,276,968	1,314,800	210,038

CITY OF GLADBROOK

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$239,353. The budget amendment is reflected in the final budgeted amounts.

Supplementary Information

CITY OF GLADBROOK
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2013

	Special Revenue		
	Urban		
	Renewal Tax	Employee	Emergency
	Increment	Benefits	Services
Receipts:			
Property tax	\$ -	27,646	6,117
Tax increment financing	187	-	-
Other city tax	-	711	157
Intergovernmental	-	-	-
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total receipts	187	28,357	6,274
Disbursements:			
Operating:			
Culture and recreation	-	-	-
Total disbursements	-	-	-
Excess (deficiency) of receipts over (under) disbursements	187	28,357	6,274
Other financing uses:			
Operating transfers out	-	(28,357)	(6,274)
Change in cash balance	187	-	-
Cash balances beginning of year	-	-	-
Cash balances end of year	\$ 187	-	-
Cash Basis Fund Balances			
Restricted for other purposes	\$ 187	-	-
Total cash basis fund balances	\$ 187	-	-

Library	Total
-	33,763
-	187
-	868
832	832
181	181
2,696	2,696
3,709	38,527

6,203	6,203
6,203	6,203

(2,494)	32,324
---------	--------

-	(34,631)
(2,494)	(2,307)
17,847	17,847
15,353	15,540

15,353	15,540
15,353	15,540

CITY OF GLADBROOK
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes: Corporate purpose	Aug 1, 2004	3.95%	\$ 413,643
Rural Economic Development loan	Nov 22, 2010	0.00%	\$ 360,000
State Revolving Fund loan	Oct 5, 2011	3.00%	\$ 640,443
Sewer revenue capital loan note: Sewer improvement	Sept 15, 2001	3.00%	\$ 706,000

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	103,000	-	50,500	52,500	3,470	-
\$	340,000	-	40,000	300,000	-	-
\$	623,443	144,718	17,000	751,161	21,056	-
\$	236,000	-	23,000	213,000	7,080	-

CITY OF GLADBROOK
Bond and Note Maturities
June 30, 2013

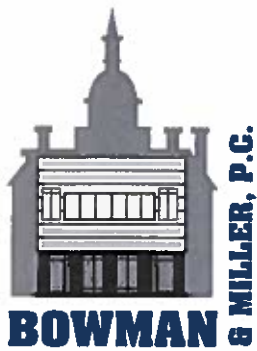
Year Ending June 30,	General Obligation Note Corporate Purpose Issued August 1, 2004		Rural Economic Development Loan Issued November 22, 2010	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2014	3.95 %	\$ 52,500	0.00 %	\$ 40,000
2015		-	0.00	40,000
2016		-	0.00	40,000
2017		-	0.00	40,000
2018		-	0.00	40,000
2019		-	0.00	40,000
2020		-	0.00	40,000
2021		-	0.00	20,000
Total		<u>\$ 52,500</u>		<u>\$ 300,000</u>

Year Ending June 30,	Revenue Note Sewer Improvement		State Revolving Loan Fund		Total
	Issued September 15, 2001		Issued October 5, 2011		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2014	3.00 %	\$ 24,000	3.00 %	\$ 751,161	\$ 867,661
2015	3.00	25,000		-	65,000
2016	3.00	25,000		-	65,000
2017	3.00	26,000		-	66,000
2018	3.00	27,000		-	67,000
2019	3.00	28,000		-	68,000
2020	3.00	29,000		-	69,000
2021	3.00	29,000		-	49,000
Total		\$ 213,000		\$ 751,161	\$ 1,316,661

CITY OF GLADBROOK
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Ten Years

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 272,463	256,259	281,095	217,790
Tax increment financing	187	15,574	19,402	17,435
Other city tax	75,207	56,099	67,317	65,949
Intergovernmental	285,907	422,445	205,496	159,381
Licenses and permits	210	150	785	515
Charges for service	31,718	46,405	32,610	42,671
Use of money and property	3,599	3,003	5,864	4,575
Special assessments	4,733	1,211	1,059	2,684
Miscellaneous	38,445	125,310	46,442	109,300
Total	\$ 712,469	926,456	660,070	620,300
Disbursements:				
Operating:				
Public safety	\$ 118,719	141,955	126,910	116,411
Public works	172,028	110,134	110,478	117,911
Health and social services	-	-	-	-
Culture and recreation	55,375	46,874	48,313	50,112
Community and economic development	3,037	3,847	8,244	7,353
General government	76,363	80,726	70,232	68,726
Debt service	93,970	74,113	304,930	102,860
Capital projects	203,497	1,175,596	183,818	338,345
Total	\$ 722,989	1,633,245	852,925	801,718

2009	2008	2007	2006	2005	2004
224,783	216,960	212,379	194,340	192,653	173,949
17,422	19,773	24,578	23,773	42,104	-
65,650	64,704	64,725	52,884	43,307	46,026
149,883	532,978	145,859	125,569	126,178	205,263
701	260	410	758	893	1,010
40,164	44,710	38,486	36,477	23,166	6,539
11,058	16,357	13,873	11,503	6,957	17,104
573	3,423	1,620	-	15,127	-
35,869	25,378	14,375	13,784	26,523	55,149
546,103	924,543	516,305	459,088	476,908	505,040
174,666	172,034	165,539	109,181	88,359	146,763
126,280	159,858	108,031	97,212	99,973	100,335
-	-	-	-	-	260
49,445	51,767	46,052	41,642	56,019	44,434
32,868	23,766	25,718	14,379	20,572	71,212
66,702	56,457	51,588	51,783	56,019	73,800
70,613	70,741	70,819	70,909	87,020	39,218
20,225	375,298	-	-	24,251	464,341
540,799	909,921	467,747	385,106	432,213	940,363



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Gladbrook, Gladbrook, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 16, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Gladbrook's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladbrook's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gladbrook's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Gladbrook's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Gladbrook's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operation for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Gladbrook's Responses to Findings

The City of Gladbrook's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Gladbrook's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Gladbrook during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
August 16, 2013

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2013

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF GLADBROOK
Schedule of Findings
Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-13 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting.
- (2) Disbursements - check writing, signing, and reconciling.
- (3) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties, the City should utilize administrative personnel to provide additional internal control through review of financial transactions and reports.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

III-A-13 Certified Budget – Disbursements during the year ended June 30, 2013, did not exceed the amounts budgeted.

III-B-13 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF GLADBROOK

Schedule of Findings

Year ended June 30, 2013

Part III: Other Findings Related to Required Statutory Reporting (continued):

III-D-13 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Roger Luehring, Council Member and Mike Bearden, spouse of the City Clerk Shareholders in Clapsaddle-Garber and Associates	Engineering services	<u>\$26,184</u>
Dan DeWitt, Council Member, son of owner and employee of DeWitt Refrigeration	Repairs and maintenance	<u>\$1,025</u>

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Council Member Dan DeWitt do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year. The transactions with Clapsaddle-Garber and Associates do not appear to represent a conflict of interest since they were entered into through a competitive selection process in accordance with Chapter 362.5(4) of the Code of Iowa.

III-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-13 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-13 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-13 Revenue Notes – The City was in compliance with all applicable revenue note provisions.

CITY OF GLADBROOK

Staff

This audit was performed by:

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Certified Public Accountants
Marshalltown, IA 50158**

Personnel:

**Elizabeth A. Miller, C.P.A., Partner
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Diana Swanson, Staff**